

**Auditing Procedures Report**

Instructions and MuniCodes

\* = Required Fields

Reset Form

Issued under Public Act 2 of 1968, as amended. (V1.07)

Unit Name* GILMORE TOWNSHIP	County* ISABELLA	Type* TOWNSHIP	MuniCode* 37-1-080
Opinion Date-Use Calendar* Sep 25, 2008	Audit Submitted-Use Calendar* Sep 30, 2008	Fiscal Year End Month* 03	Fiscal Year* 2008

If a local unit of government (authorities & commissions included) is operating within the boundaries of the audited entity and is NOT included in this or any other audit report, nor do they obtain a stand-alone audit, enclose the name(s), address(es), and a description(s) of the authority and/or commission.

Place a check next to each "Yes" or non-applicable question below. Questions left unmarked should be those you wish to answer "No."

<input checked="" type="checkbox"/> ?	1. Are all required component units/funds/agencies of the local unit included in the financial statements and/or disclosed in the reporting entity notes to the financial statements?
<input checked="" type="checkbox"/> ?	2. Does the local unit have a positive fund balance in all of its unreserved fund balances/unrestricted net assets?
<input checked="" type="checkbox"/> ?	3. Were the local unit's actual expenditures within the amounts authorized in the budget?
<input type="checkbox"/> ?	4. Is this unit in compliance with the Uniform Chart of Accounts issued by the Department of Treasury?
<input checked="" type="checkbox"/> ?	5. Did the local unit adopt a budget for all required funds?
<input type="checkbox"/> ?	6. Was a public hearing on the budget held in accordance with State statute?
<input checked="" type="checkbox"/> ?	7. Is the local unit in compliance with the Revised Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, and other guidance as issued by the Local Audit and Finance Division?
<input checked="" type="checkbox"/> ?	8. Has the local unit distributed tax revenues, that were collected for another taxing unit, timely as required by the general property tax act?
<input checked="" type="checkbox"/> ?	9. Do all deposits/investments comply with statutory requirements including the adoption of an investment policy?
<input checked="" type="checkbox"/> ?	10. Is the local unit free of illegal or unauthorized expenditures that came to your attention as defined in the Bulletin for Audits of Local Units of Government in Michigan, as revised (see Appendix H of Bulletin.)
<input checked="" type="checkbox"/> ?	11. Is the unit free of any indications of fraud or illegal acts that came to your attention during the course of audit that have not been previously communicated to the Local Audit and Finance Division? (If there is such activity, please submit a separate report under separate cover.)
<input type="checkbox"/> ?	12. Is the local unit free of repeated reported deficiencies from previous years?
<input checked="" type="checkbox"/> ?	13. Is the audit opinion unqualified? 14. If not, what type of opinion is it? NA
<input checked="" type="checkbox"/> ?	15. Has the local unit complied with GASB 34 and other generally accepted accounting principles (GAAP)?
<input type="checkbox"/> ?	16. Has the board or council approved all disbursements prior to payment as required by charter or statute?
<input checked="" type="checkbox"/> ?	17. To your knowledge, were the bank reconciliations that were reviewed performed timely?
<input checked="" type="checkbox"/> ?	18. Are there reported deficiencies? <input checked="" type="checkbox"/> 19. If so, was it attached to the audit report?

General Fund Revenue: ?	\$ 176,075.00
General Fund Expenditure: ?	\$ 121,474.00
Major Fund Deficit Amount: ?	\$ 0.00

General Fund Balance: ?	\$ 603,237.00
Governmental Activities Long-Term Debt (see instructions): ?	

We affirm that we are certified public accountants (CPA) licensed to practice in Michigan. We further affirm the above responses have been disclosed in the financial statements, including the notes, or in the Management Letter (reported deviations).

CPA (First Name)* BOBBIE	Last Name* MARR	Ten Digit License Number* 1101026172		
CPA Street Address* 2865 S LINCOLN ROAD	City* MT PLEASANT	State* MI	Zip Code* 48858	Telephone* +1 (989) 773-5494
CPA Firm Name* PAGE OLSON & CO PC	Unit's Street Address* 4440 BEACHNUT	Unit's City* LAKE	Unit's Zip* 48632	

**TOWNSHIP OF GILMORE**  
**ISABELLA COUNTY**  
**STATE OF MICHIGAN**  
**ANNUAL FINANCIAL REPORT**  
**YEAR ENDED MARCH 31, 2008**

# TOWNSHIP OF GILMORE, ISABELLA COUNTY

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# **Introductory Section**

**TOWNSHIP OF GILMORE, ISABELLA COUNTY  
BOARD OFFICIALS  
YEAR ENDED MARCH 31, 2008**

**SUPERVISOR**

Harold Peckens

**TRUSTEES**

Gary D. Seymour

John Graham

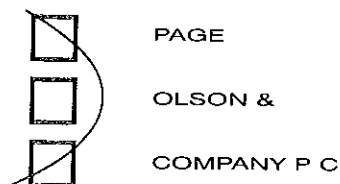
**TREASURER**

Patricia L. Marshall

**CLERK**

Anita Pohl

# **Financial Section**



## INDEPENDENT AUDITOR'S REPORT

September 25, 2008

Board Members  
Township of Gilmore  
Isabella County, Michigan

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Township of Gilmore, Isabella County, State of Michigan as of and for the year ended March 31, 2008, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Township of Gilmore, Isabella County, State of Michigan, as of March 31, 2008, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages 9 through 12 and 37, are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Board Members  
Township of Gilmore  
Isabella County, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Township of Gilmore, Isabella County, Michigan's basic financial statements. The required supplemental and other supplemental information are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information relative to March 31, 2008 and for the year then ended has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Our communication with those charged with governance is included herein and forms a part of this report.

*Page, Olson & Company*



# **TOWNSHIP OF GILMORE, ISABELLA COUNTY MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED MARCH 31, 2008**

As management of Gilmore Township, we offer readers of the Township's financial statements this narrative overview and analysis of the financial activities of the Township for the fiscal year ended March 31, 2008. We encourage readers to consider the information presented here in conjunction with the financial report. All amounts, unless otherwise indicated, are presented in whole dollars.

## **Financial Highlights**

The assets of the Township exceeded its liabilities at the close of the most recent fiscal year by \$647,474 (net assets). Of this amount, \$618,774 (unrestricted net assets) may be used to meet the government's ongoing obligations to the citizens and creditors.

The Township's total net assets increased by \$61,381. This increase is attributable to \$200,549 of general revenues offsetting a \$139,168 loss from operating activities.

Therefore, at the end of the current fiscal year, unreserved fund balance for the general fund was \$603,237 or approximately 497 percent of general fund expenditures.

## **Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction of the Township's basic financial statements. The Township's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements.** The government-wide financial statements are designed to provide readers with a broad overview of the Township's finances, in a manner similar to a private-sector business.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both of the government-wide financial statements distinguish functions of the Township that are principally supported by intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The Townships operations are classified as governmental-type activities.

The government wide financial statements can be found on pages 15 and 16 of this report.

**Fund financial statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Township, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The funds of the Township can be divided into two categories: governmental funds and fiduciary funds.

**Governmental funds.** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on the near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. A reconciliation is provided to facilitate comparison between governmental funds and governmental activities when necessary.

The Township maintains three governmental funds. The first, General Fund, is the Township's operating fund. The two additional funds, Fire and Rubbish Collection, are used for the Fire millage and the Rubbish Collection special assessment, respectively.

The Township adopts an annual appropriated budget for all governmental funds. Budgetary comparison statements have been provided in the supplemental section of the report to demonstrate the extent of compliance with the Budget. Such budgets are adopted and reported on the cash basis of accounting utilized by the Township during the year.

The basic governmental fund financial statements can be found on pages 17 and 18 of this report.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found beginning on page 21 of this report.

### Government Wide Financial Analysis

The following summaries provide a perspective of the financial information of the Township as a whole:

Gilmore Township's Net Assets.	
	<u>2008</u>
Current and other assets	\$ 623,176
Capital Assets	<u>28,700</u>
Total Assets	651,876
Liabilities	4,402
Net assets:	
Invested in Capital Assets	28,700
Unrestricted	<u>618,774</u>
Total net assets	\$ 647,474

<b>Gilmore Township's Changes in Net Assets.</b>
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	<u><b>2008</b></u>
Revenues:	
Program revenues:	
Charges for Services	\$103,261
General Revenue:	
Property Taxes	82,931
State revenue sharing	97,460
Interest and Dividends	18,590
Other Revenue	<u>1,568</u>
Total Revenues	303,810
Expenses:	
General Government	75,811
Public Safety	38,673
Public Works	<u>127,945</u>
Total Expenses	<u>242,429</u>
Increase in net assets	61,381
Net Assets - April 1	<u>586,093</u>
Net Assets - March 31	\$ 647,474

As noted earlier, net assets may serve over time as a useful indicator of a Township's financial position. In the case of Gilmore Township, assets exceeded liabilities by \$647,474 at the close of the most recent fiscal year.

**Governmental funds.** The focus of the Township's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Township's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

#### **General Fund Budgetary Highlights**

The annual budget was approved by the Township Board in April of 2007. Although this was not prior to the beginning of the fiscal year as required by the State of Michigan, no expenditures were paid prior to budget approval. The budget was amended by the Board once during the fiscal year of 2007-2008.

## Capital Asset Administration

**Capital Assets.** The Township's investment in capital assets for its governmental activities as of March 31, 2008, amounts to \$28,700 (Net of Depreciation). This investment in capital assets includes land and buildings. All equipment was fully depreciated prior to fiscal year 2007-2008.

### Gilmore Townships Capital Assets (net of depreciation)

#### Governmental Activities:

Land	4,500
Buildings	24,200
Equipment	-
	<u>\$ 28,700</u>

## Economic Factors

Economic factors will certainly change and reflect the direction that the community has taken. The Board of the Township is committed to working together to get the most out of every dollar and serve in the most responsible manner possible.

## Requests for information

This financial report is designed to provide a general overview of the Authority's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Gilmore Township Treasurer, Patricia Marshall at (989) 644-2112 or the Clerk, Anita Pohl at (989) 588-9650.

# **Basic Financial Statements**

**TOWNSHIP OF GILMORE, ISABELLA COUNTY  
GOVERNMENT WIDE STATEMENT OF NET ASSETS  
YEAR ENDED MARCH 31, 2008**

**Statement I**

Governmental  
Activities

**ASSETS**

**Current Assets**

Cash and Cash Equivalents	\$ 608,392
State Revenue Sharing Receivable	<u>14,784</u>
Total Current Assets	623,176

**Noncurrent Assets**

Capital Assets	73,500
Accumulated Depreciation	<u>(44,800)</u>
Total Noncurrent Assets	<u>28,700</u>
Total Assets	<u>\$ 651,876</u>

**LIABILITIES AND NET ASSETS**

**Current Liabilities**

Accounts Payable	\$ 4,204
Accrued Liabilities	<u>198</u>
Total Current Liabilities	4,402

**Net Assets**

Invested in Capital Assets	28,700
Unrestricted	<u>618,774</u>
Total Net Assets	<u>647,474</u>
Total Liabilities and Net Assets	<u>\$ 651,876</u>

The notes to the financial statements are an integral part of this statement.

**TOWNSHIP OF GILMORE, ISABELLA COUNTY  
GOVERNMENT WIDE  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED MARCH 31, 2008**

**Statement II**

			Net (Expense) Revenue and Changes in Net Assets
	Program Revenues	Charges for Services	Governmental Activities
Functions / Programs	Expenses		
Primary Government:			
Governmental Activities			
General Government	\$ 75,811	\$ 17,592	\$ (58,219)
Public Safety	38,673	-	(38,673)
Public Works	<u>127,945</u>	<u>85,669</u>	<u>(42,276)</u>
Total Governmental Activities	<u>\$ 242,429</u>	<u>\$ 103,261</u>	(139,168)
<b>General Revenues:</b>			
Property taxes - general			40,865
Property taxes - fire			42,066
State revenue sharing			97,460
Interest and dividends			18,590
Other revenue			<u>1,568</u>
Total General Revenues			<u>200,549</u>
<b>Changes in Net Assets</b>			61,381
<b>Net Assets - April 1</b>			<u>586,093</u>
<b>Net Assets - March 31</b>			<u>\$ 647,474</u>

The notes to the financial statements are an integral part of this statement.

**TOWNSHIP OF GILMORE, ISABELLA COUNTY  
BALANCE SHEET, GOVERNMENTAL FUNDS  
YEAR ENDED MARCH 31, 2008**

**Statement III**

	General Fund	Fire Fund	Rubbish Collection Fund	Total
<b><u>ASSETS</u></b>				
Cash and cash equivalents	\$ 608,392	\$ -	\$ -	\$ 608,392
State revenue sharing receivable	14,784	-	-	14,784
Due from other funds	<u>-</u>	<u>7,738</u>	<u>7,799</u>	<u>15,537</u>
 TOTAL ASSETS	 <u>\$ 623,176</u>	 <u>\$ 7,738</u>	 <u>\$ 7,799</u>	 <u>\$ 638,713</u>
<b><u>LIABILITIES AND FUND BALANCE</u></b>				
<b><u>LIABILITIES</u></b>				
Accounts payable	\$ 4,204	\$ -	\$ -	\$ 4,204
Accrued liabilities	198	-	-	198
Due to other funds	<u>15,537</u>	<u>-</u>	<u>-</u>	<u>15,537</u>
 TOTAL LIABILITIES	 19,939	 -	 -	 19,939
 <b><u>FUND BALANCE</u></b>				
Unreserved and undesignated				
General Fund	603,237	-	-	603,237
Special Revenue Funds	<u>-</u>	<u>7,738</u>	<u>7,799</u>	<u>15,537</u>
 TOTAL FUND BALANCE	 <u>603,237</u>	 <u>7,738</u>	 <u>7,799</u>	 <u>618,774</u>
 TOTAL LIABILITIES AND FUND BALANCE	 <u>\$ 623,176</u>	 <u>\$ 7,738</u>	 <u>\$ 7,799</u>	 <u>\$ 638,713</u>

See Statement V for a reconciliation between the Governmental Fund Balance Sheet presented in the Fund Financial Statements and amounts reported in the Government Wide Statement of Net Assets.

The notes to the financial statements are an integral part of this statement.



**TOWNSHIP OF GILMORE, ISABELLA COUNTY**  
**STATEMENT OF REVENUE, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE, GOVERNMENTAL FUNDS**  
**YEAR ENDED MARCH 31, 2008**

**STATEMENT IV**

	General Fund	Fire Fund	Rubbish Collection Fund	Total
<b>REVENUE</b>				
Property taxes	\$ 40,865	\$ 42,066	\$ -	\$ 82,931
State revenue sharing	97,460	-	-	97,460
Charges for services				
Property tax administration fee	13,661	-	-	13,661
Cemetery	280	-	-	280
Other	3,651	-	-	3,651
Interest earnings	18,590	-	-	18,590
Special assessments	-	-	85,669	85,669
Other revenue	<u>1,568</u>	<u>-</u>	<u>-</u>	<u>1,568</u>
<b>TOTAL REVENUE</b>	<b>176,075</b>	<b>42,066</b>	<b>85,669</b>	<b>303,810</b>
<b>EXPENDITURES</b>				
General government:				
Township board	6,133	-	-	6,133
Supervisor	11,225	-	-	11,225
Clerk	10,782	-	-	10,782
Board of Review	1,497	-	-	1,497
Treasurer	12,391	-	-	12,391
Assessor	12,687	-	-	12,687
Elections	919	-	-	919
Cemetery	12,218	-	-	12,218
Building and grounds	6,959	-	-	6,959
Public safety:				
Fire protection	-	38,673	-	38,673
Public works:				
Highways and streets	46,663	-	-	46,663
Rubbish collection	<u>-</u>	<u>-</u>	<u>81,282</u>	<u>81,282</u>
<b>TOTAL EXPENDITURES</b>	<b><u>121,474</u></b>	<b><u>38,673</u></b>	<b><u>81,282</u></b>	<b><u>241,429</u></b>
<b>EXCESS OF REVENUE OVER (UNDER) EXPENDITURES</b>	<b>54,601</b>	<b>3,393</b>	<b>4,387</b>	<b>62,381</b>
<b>FUND BALANCE - APRIL 1</b>	<b><u>548,636</u></b>	<b><u>4,345</u></b>	<b><u>3,412</u></b>	<b><u>556,393</u></b>
<b>FUND BALANCE - MARCH 31</b>	<b><u>\$ 603,237</u></b>	<b><u>\$ 7,738</u></b>	<b><u>\$ 7,799</u></b>	<b><u>\$ 618,774</u></b>

See Statement V for a reconciliation between the Statement of Revenues, Expenditures, and Changes in Fund Balance presented in the Fund Financial Statements and amounts reported as Governmental Activities in the Government Wide Statements.

The notes to the financial statements are an integral part of this statement.

**TOWNSHIP OF GILMORE, ISABELLA COUNTY  
RECONCILIATION OF FUND BALANCE TO THE  
STATEMENT OF NET ASSETS AND  
RECONCILIATION OF STATEMENT OF REVENUE, EXPENDITURES  
AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITY  
YEAR ENDED MARCH 31, 2008**

**STATEMENT V**

**Reconciliation of Fund Balance to the Statement of Net Assets:**

Amounts reported for governmental activities in the statement of net assets are different because:

Total Fund Balance of Governmental Funds (Statement III)	\$ 618,774
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	<u>28,700</u>
Net Assets of Governmental Activities (Statement I)	<u>\$ 647,474</u>

**Reconciliation of Statement of Revenue, Expenditures and Changes in Fund Balance of Governmental Funds to the Statement of Activity:**

Amounts reported for governmental activities in the statement of activities are different because:

Net Change in Fund Balances - Total Governmental Funds (Statement IV)	\$ 62,381
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays (\$0) exceeded depreciation (\$1,000) in the current period.	<u>(1,000)</u>
Change in Net Assets of Governmental Activities (Statement II)	<u>\$ 61,381</u>

The notes to the financial statements are an integral part of this statement.

# **GILMORE TOWNSHIP, ISABELLA COUNTY**

## **NOTES TO THE FINANCIAL STATEMENTS**

### **MARCH 31, 2008**

#### **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of Gilmore Township have been prepared in conformity with generally accepted accounting principles (GAAP) in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant policies.

##### **A. Reporting Entity**

Gilmore Township, Isabella County, operates under the directorship of a Township board consisting of five members. The Township provides the following services: Public safety, highways and streets, refuse collection, and general administrative services.

**Component units.** In evaluating how to define the government, for financial reporting purposes, management has considered all potential agencies and organizations. The decision to include a potential agency or organization in the reporting entity was made by applying the criteria set for by the Governmental Accounting Standards Board (GASB) Statement 14. Generally, component units are legally separate organizations for which the elected officials of the Township are financially accountable. Financial accountability is determined by the Township's ability to impose its will on the component unit, as well as the unit's significance regarding the operational and financial relationship with the Township. Based upon the application of these criteria, we found no other units that should be classified as component units.

##### **B. Government-wide and fund financial statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on the fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of the given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

##### **C. Measurement focus, basis of accounting, and financial statement presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

# GILMORE TOWNSHIP, ISABELLA COUNTY

## NOTES TO THE FINANCIAL STATEMENTS

### MARCH 31, 2008

#### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### C. Measurement focus, basis of accounting, and financial statement presentation (Continued)

**Governmental Funds.** Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Township reports the following governmental funds:

The *General Fund* is the Township's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

*Special Revenue Funds* account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

The *Fire Fund* is a special revenue fund. It accounts for the fire millage revenue and resources used to provide fire services to residents of the Township.

The *Rubbish Collection Fund* is another special revenue fund. It accounts for the rubbish collection special assessment and resources used to provide rubbish collection activities to the residents of the Township.

**Proprietary Funds.** The focus of proprietary fund measurement is upon determination of operating income, changes in net assets, financial position, and cash flows. The generally accepted accounting principles applicable are those similar to businesses in the private sector. There are currently no proprietary funds in the Township.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to the same limitation. The Township has elected not to follow subsequent private-sector guidance should it establish a proprietary fund.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to the general rule are payments of utility charges between a Township's water and sewer function and various other functions of the Township. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

# **GILMORE TOWNSHIP, ISABELLA COUNTY**

## **NOTES TO THE FINANCIAL STATEMENTS**

### **MARCH 31, 2008**

#### **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **C. Measurement focus, basis of accounting, and financial statement presentation (Continued)**

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including some special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

When both restricted and unrestricted resources are available for use, it is the Township's policy to use restricted resources first followed by unrestricted resources as needed.

##### **D. Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

##### **E. Assets, liabilities, and net assets or equity**

**1) Deposits and Investments** – The Township has defined cash and cash equivalents to include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired.

Investments are reported at fair value. State statutes authorize the government to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments.

**2) Receivables and Payables** – In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances".

Advance between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

Property taxes receivable, as applicable, is shown net of an allowance for uncollectible. Property taxes are levied and due December 1, and become delinquent after February 14.

**3) Inventories and Prepaid Items** – The Township follows the policy of not recording inventories in governmental funds. The effect of not recording inventories is considered to be immaterial. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

**4) Restricted Assets** – Certain resources of the Township may be classified as restricted on the statement of net assets because their use is limited.

# **GILMORE TOWNSHIP, ISABELLA COUNTY**

## **NOTES TO THE FINANCIAL STATEMENTS**

### **MARCH 31, 2008**

#### **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**5) Capital Assets** – Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The Township defines capital assets as assets with initial, individual cost of more than \$1,500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the time of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the primary government are depreciated using the straight-line method over the following estimated useful lives:

Land & Park Improvements	10 to 25 years
Buildings	50 to 75 years
Building Improvements	10 to 25 years
Vehicles and Equipment	10 to 20 years
Equipment	5 to 10 years

**6) Compensated Absences (Vacation and Sick Leave)** – The Township's policy that all vacation sick leave be used in the year in which it is earned. Unused leave time is not accrued and will not be paid upon termination.

**7) Post Employment Benefits** -- The Township provides no post-employment benefits to past employees.

**9) Fund Equity** – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designation of fund balance represent tentative management plans that are subject to change.

#### **NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

##### **A. Budgets and Budgetary accounting**

Annual budgets are adopted for the general and all special revenue funds. The budgets for all funds are adopted on a basis consistent with accounting principles generally accepted in the United States of America. The legal level of budgetary control adopted by the governing body is the department or activity level for all funds.

The Township does not record encumbrances in accounting during the year. Appropriations lapse at the end of the fiscal year and amounts are re-appropriated for expenditures to be incurred in the next fiscal year.

# GILMORE TOWNSHIP, ISABELLA COUNTY

## NOTES TO THE FINANCIAL STATEMENTS

### MARCH 31, 2008

#### NOTE 3 – CASH AND CASH EQUIVALENTS

Deposits are carried at cost. Deposits are held at one designated financial institution in the name of the Township Treasurer. Michigan Compiled Laws, Section 129.91, authorizes the Township to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations. The Township's deposits are in accordance with statutory authority.

At year-end, the carrying value of cash and cash equivalents held by the Township is as follows:

	Primary Government
Bank Deposits (CD, Checking, Savings)	\$ 608,392

#### Deposits

There is custodial credit risk as it relates to deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Township's deposits may not be returned to it. At year-end, the carrying amount of the Township's deposits with financial institutions was \$608,392 and the bank balance was \$635,337. Of the bank balance \$100,000 was covered by federal depository insurance and \$535,337 was uninsured and uncollateralized. Of the book balance \$100,000 was covered by federal depository insurance and \$508,392 was uninsured and uncollateralized.

#### Credit Risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations. As of year-end, the Township did not have any investments that would be subject to rating.

#### Interest Rate Risk

The Township will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the Township's cash requirements.

#### Concentration of Credit Risk

The Township will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Township's investment in a single issuer, by diversifying the investment portfolio so the impact of potential losses from any one type of security or issuer will be minimized.

#### Custodial Credit Risk

The Township will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by limiting investments to the types of securities authorized by the Board and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the Township will do business in accordance with Board approved policy.

# **GILMORE TOWNSHIP, ISABELLA COUNTY** **NOTES TO THE FINANCIAL STATEMENTS** **MARCH 31, 2008**

## **NOTE 4 – INTERFUND RECEIVABLE, PAYABLES AND TRANSFERS**

The composition of interfund balances in the fund statements is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	
Fire Fund	General Fund	\$ 7,738
Rubbish Collection Fund	General Fund	<u>7,799</u>
		<u>\$ 15,537</u>

The Township does not have separate cash accounts for special revenue funds, thus the net payable or receivable with General Fund represents the net revenue and expenses of that respective fund that is in the General Fund cash balance.

## **NOTE 5 – CAPITAL ASSETS**

Capital asset activity for the year ended March 31, 2008 was as follows:

	Beginning Balance	Acquisitions	Sales & Dispositions	Ending Balance
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 4,500	\$ -	\$ -	\$ 4,500
Capital assets being depreciated:				
Buildings	67,500	-	-	67,500
Equipment	1,500	-	-	1,500
Total capital assets being depreciated	<u>69,000</u>	<u>-</u>	<u>-</u>	<u>69,000</u>
Less accumulated depreciation for:				
Buildings	42,300	1,000	-	43,300
Equipment	1,500	-	-	1,500
Total accumulated depreciation	<u>43,800</u>	<u>1,000</u>	<u>-</u>	<u>44,800</u>
Total capital assets, being depreciated, net	<u>25,200</u>	<u>(1,000)</u>	<u>-</u>	<u>24,200</u>
Governmental activities capital assets, net	<u>\$ 29,700</u>	<u>\$ (1,000)</u>	<u>\$ -</u>	<u>\$ 28,700</u>

All depreciation was charged to General Government.

## **NOTE 6 – DEFERRED REVENUE**

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current year, there was no deferred revenue.



# **GILMORE TOWNSHIP, ISABELLA COUNTY**

## **NOTES TO THE FINANCIAL STATEMENTS**

### **MARCH 31, 2008**

#### **NOTE 7 – RISK MANAGEMENT**

The Township is exposed to various risks of loss related to claims, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Township purchases commercial insurance to provide for these risks.

There was no change in coverage from the prior year. Settled claims have not historically exceeded the amounts of insurance coverage.

#### **NOTE 8 – RETIREMENT BENEFITS**

The Township provides pension benefits to its employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. John Hancock Life Insurance Company administers the plan. The Township contributes a percentage of the participant's salary to the plan. A total of \$4,639 was contributed for the year ending March 31, 2008. Plan provisions and contribution requirements are established and amended by the Township Board.

#### **NOTE 9 – DEFERRED COMPENSATION PLAN**

The Township does not have a deferred compensation plan.

#### **NOTE 10 – BUILDING PERMITS**

Gilmore Township does not issue building permits. Building permits are issued by Isabella County.

#### **NOTE 11 – CHANGES IN FINANCIAL PRESENTATION**

Prior year financial statements reported Fire Fund and Rubbish Collection Fund activities within the General Fund. Because both funds meet the criteria for Special Revenue Funds, they were separated for the March 31, 2008 financial statements. Opening fund balance was determined by calculating the net revenue in excess of expenses for each fund over the prior two years. Activity prior to that time was determined to be immaterial.

# **Required Supplemental Information**

**TOWNSHIP OF GILMORE, ISABELLA COUNTY  
REQUIRED SUPPLEMENTAL INFORMATION  
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND  
PRESENTED ON THE CASH BASIS  
FOR THE YEAR ENDED MARCH 31, 2008**

**Exhibit A**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Under (Over) Budget
	Original	Final		
<b>REVENUE</b>				
Property taxes	\$ 38,332	\$ 41,297	\$ 40,865	\$ 432
State revenue sharing	73,000	94,670	98,045	(3,375)
Charges for services				-
Property tax administration fee	13,661	13,661	13,661	-
Cemetery	1,000	1,000	280	720
Other	3,957	3,957	3,651	306
Interest earnings	14,000	47,751	23,875	23,876
Other revenue	100	100	1,568	(1,468)
<b>TOTAL REVENUE</b>	<b>144,050</b>	<b>202,436</b>	<b>181,945</b>	<b>20,491</b>
<b>EXPENDITURES</b>				
Legislative:				
Township board	9,660	10,094	5,771	4,323
General government:				
Supervisor	12,482	12,482	10,032	2,450
Elections	3,296	3,313	812	2,501
Clerk	13,473	13,907	9,553	4,354
Assessor	13,114	13,114	12,687	427
Board of Review	3,372	3,393	1,378	2,015
Treasurer	18,010	18,010	11,198	6,812
Cemetery	12,465	13,126	12,218	908
Building and grounds	8,300	8,855	6,959	1,896
Public works:				
Highways and streets	47,250	47,250	46,663	587
<b>TOTAL EXPENDITURES</b>	<b>141,422</b>	<b>143,544</b>	<b>117,271</b>	<b>26,273</b>
<b>EXCESS OF REVENUE OVER (UNDER) EXPENDITURES</b>	<b>2,628</b>	<b>58,892</b>	<b>64,674</b>	<b>\$ (5,782)</b>
<b>FUND BALANCE - APRIL 1</b>	<b>548,636</b>	<b>548,636</b>	<b>548,636</b>	
<b>FUND BALANCE - MARCH 31</b>	<b>\$ 551,264</b>	<b>\$ 607,528</b>	<b>\$ 613,310</b>	
Reconciliation to Statement of Activities:				
Excess of revenue over expenditures - cash basis			\$ 64,674	
Adjustments to Accrual Basis:				
State revenue sharing receivable			(585)	
Accounts payable			(4,203)	
Interest earned			(5,285)	
Excess of revenue over expenditures - Statement of Revenue, Expenditures and Changes in Fund Balance, Governmental Funds (Stmt IV)			\$ 54,601	

**TOWNSHIP OF GILMORE, ISABELLA COUNTY  
REQUIRED SUPPLEMENTAL INFORMATION  
BUDGETARY COMPARISON SCHEDULE - FIRE FUND  
PRESENTED ON THE CASH BASIS  
FOR THE YEAR ENDED MARCH 31, 2008**

**Exhibit B**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Under (Over) Budget
	Original	Final		
<b>REVENUE</b>				
Property taxes	\$ 38,533	\$ 42,066	\$ 42,066	\$ -
TOTAL REVENUE	38,533	42,066	42,066	-
<b>EXPENDITURES</b>				
Public safety:				
Fire protection	38,533	38,673	38,673	-
TOTAL EXPENDITURES	38,533	38,673	38,673	-
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	-	3,393	3,393	\$ -
FUND BALANCE - APRIL 1	4,345	4,345	4,345	
FUND BALANCE - MARCH 31	\$ 4,345	\$ 7,738	\$ 7,738	

**TOWNSHIP OF GILMORE, ISABELLA COUNTY  
REQUIRED SUPPLEMENTAL INFORMATION  
BUDGETARY COMPARISON SCHEDULE - RUBBISH COLLECTION FUND  
PRESENTED ON THE CASH BASIS  
FOR THE YEAR ENDED MARCH 31, 2008**

**Exhibit C**

	<div style="border: 1px solid black; padding: 2px; text-align: center;">Budgeted Amounts</div>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Under (Over) Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUE</b>				
Special assessments	<u>\$ 85,885</u>	<u>\$ 85,885</u>	<u>\$ 85,669</u>	<u>\$ 216</u>
TOTAL REVENUE	85,885	85,885	85,669	216
<b>EXPENDITURES</b>				
Public works:				
Rubbish Collection	<u>85,885</u>	<u>85,885</u>	<u>81,282</u>	<u>4,603</u>
TOTAL EXPENDITURES	<u>85,885</u>	<u>85,885</u>	<u>81,282</u>	<u>4,603</u>
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	-	-	4,387	<u>\$ (4,387)</u>
FUND BALANCE - APRIL 1	<u>3,412</u>	<u>3,412</u>	<u>3,412</u>	
FUND BALANCE - MARCH 31	<u>\$ 3,412</u>	<u>\$ 3,412</u>	<u>\$ 7,799</u>	

## **Other Supplemental Information**

**TOWNSHIP OF GILMORE, ISABELLA COUNTY  
OTHER SUPPLEMENTARY INFORMATION  
GENERAL FUND EXPENDITURES DETAIL  
FOR THE YEAR ENDED MARCH 31, 2008**

**Exhibit D**

EXPENDITURES:

Township Board		
Wages	\$	2,401
Per diem		850
Payroll taxes		81
Pension		400
Liability Insurance		178
Mileage		261
Miscellaneous		1,184
Memberships & dues		778
Supervisor		
Wages		7,912
Per diem		700
Payroll taxes		266
Pension		1,317
Liability Insurance		586
Postage		63
Supplies		39
Mileage		342
Clerk		
Wages		8,144
Per diem		100
Payroll taxes		275
Pension		1,356
Liability Insurance		604
Postage		64
Telephone		99
Supplies		65
Mileage		16
Education & training		60
Treasurer		
Wages		7,912
Payroll taxes		266
Pension		1,317
Liability Insurance		587
Postage		287
Tax toll preparation		2,022
Assessor		
Contracted service		11,690
Liability Insurance		867
Supplies		60
Land splits		70

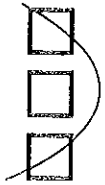
**TOWNSHIP OF GILMORE, ISABELLA COUNTY  
OTHER SUPPLEMENTARY INFORMATION  
GENERAL FUND EXPENDITURES DETAIL  
FOR THE YEAR ENDED MARCH 31, 2008**

**Exhibit D**

EXPENDITURES (continued):

Board of Review	
Wages	785
Payroll taxes	26
Pension	131
Liability Insurance	58
Mileage	45
Supplies	21
Conferences	35
Printing	396
Elections	
Wages	708
Payroll taxes	24
Pension	118
Liability Insurance	52
Supplies	17
Cemetery	
Contracted service	5,310
Liability Insurance	394
Supplies	375
Repairs and maintenance	488
Utilites - electric	278
Development - new cemetery	5,373
Building and Grounds	
Utilites	810
Gas and oil	2,531
Maintenance	2,524
Operating supplies	1,093
Highways and Streets	
Road building & maintenance	35,421
Brinning	10,992
Memberships & dues	250
	<hr/>
TOTAL EXPENDITURES	<u>\$ 121,474</u>





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## COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

September 25, 2008

Board Members  
Township of Gilmore  
Isabella County, Michigan

This letter is intended to inform the Board of the Township of Gilmore about significant matters related to the conduct of the annual audit so that it can appropriately discharge its oversight responsibility, and that we comply with our professional responsibilities to the Board.

The following summarizes various matters that must be communicated to you under U.S. generally accepted auditing standards.

### **Our Responsibility Under U.S. Generally Accepted Auditing Standards**

Our audit of the financial statements of the Township of Gilmore for the year ended March 31, 2008 was conducted in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error, fraudulent financial reporting or misappropriation of assets. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. Accordingly, the audit was designed to obtain reasonable, rather than absolute, assurance about the financial statements. We believe that our audit accomplished that objective. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered the Township's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting.

### **Planned Scope and Timing of the Audit**

We performed the audit according to the planned scope and timing previously communicated to you.

### **Significant Audit Findings**

#### *Qualitative Aspects of Accounting Practices*

Management has the ultimate responsibility for the appropriateness of the accounting policies used by the Township. The Township did not adopt any significant new accounting policies nor have there been any changes in existing significant accounting policies during the year ended March 31, 2008, which should be brought to your attention.

We did not identify any significant or unusual transactions or significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate(s) affecting the financial statements were:

Management's estimates of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.

#### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in the performance of our audit.

### **Audit Adjustments**

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Not only were adjustments required to convert the records from cash basis to modified accrual and accrual basis, significant adjustments were needed to establish an accurate cash basis trial balance. All such misstatements, many of which were material to the financial statements taken as a whole, have been corrected and communicated to the Clerk and Treasurer in a meeting.

### **Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### **Management Representations**

We have requested certain representations from management that are included in the management representation letter dated September 25, 2008.

### **Management Consultations with Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Township's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### **Major Issues Discussed with Management Prior to Retention**

No major issues were discussed with management prior to our retention to perform the aforementioned audit.

### **Other Audit Findings or Issues**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Township's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

### **Communication of Significant Deficiencies and Material Weaknesses**

In planning and performing our audit of the financial statements of the Township of Gilmore, for the year ended March 31, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered its internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the foundations internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management overrides of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we identified certain deficiencies in internal control that we considered to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies to be significant deficiencies in internal control:

**Segregation of Duties (repeated deficiency):**

Control over cash receipt and disbursement transactions is limited because of insufficient segregation of duties. The same individual accepts and records cash receipts, makes bank deposits, receives the bank statement, and prepares bank reconciliations. This individual is also an approved check signer and has access to the blank check stock.

We recognize limitations in segregating duties given the size of the Township and therefore encourage the Board to carefully exercise its oversight responsibility. At a minimum, however, both the clerk and the treasurer should reconcile all accounts to provide a double check.

**Management's Response**

We acknowledge this comment and will take it under advisement.

**Pre-numbered and Addressed Receipts**

Control over cash receipts is accomplished in part by utilizing pre-numbered cash receipt forms to facilitate accounting for all documents. This accounting ensures that all Township receipts are properly recorded and deposited. Without this numerical sequence, discarding a receipt or group of receipts could go undetected. State regulations specify, "Manually prepared receipts must be printed sequentially numbered office receipts that includes the local unit name and the department name" and "The use of generic or 'dime store' receipts is strictly prohibited." The Township's receipts are not pre-numbered and do not include any identifying name.

We recommend the Township obtain and implement sequentially numbered receipts that are preprinted with “Gilmore Township, Isabella County, Michigan”.

**Management’s Response**

We acknowledge this comment and will take it under advisement.

**Proper Approval of Minutes**

It was noted during the review of minutes that not all copies provided were signed. Because this is a formal document of the Township’s business activities, including disbursements, it is required to be signed.

We recommend the Township take care to ensure proper signatures on all minutes.

**Management’s Response**

We acknowledge this comment and will take it under advisement.

**Budget Adoption and Completeness**

Governmental entities are required to include Fund Balance in all budget documents. Additionally, the budget must be adopted prior to the beginning of the fiscal year. The Township did not include Fund Balance in its 2007-2008 budget and did not approve the budget until April 11, 2007. However, no cash disbursements were made prior to budget approval.

We recommend the Township Board take great care to ensure inclusion of the required elements and timely approval of all future budgets.

**Management’s Response**

We acknowledge this comment and will take it under advisement.

**Fund Accounting and Chart of Accounts**

State Regulations require the use of fund accounting and a standard chart of accounts for governmental units. The Township uses Quick Books for its accounting records. While it is possible to meet these regulations using this software, it requires significant manual intervention and management expertise to do so. The Township’s account structure does not follow the state chart of accounts in either structure or numbering. There is no breakdown by activity but rather a business-like structure by type of expenditure. For example all wages are included in an account called “Payroll Expenditures”. Additionally, Certificates of Deposit are excluded entirely from the Clerk’s trial balance and instead tracked manually. No distinction is made for the separate Fire or Rubbish Collection Funds.

We recommend the Township consider one or more of the following options: 1) proper training for individuals responsible for the accounting process to fully understand fund accounting and the state chart of accounts so that Quick Books can generate the required financial statements; 2) consider outsourcing its accounting function to an individual or entity with the proper knowledge and expertise in governmental fund accounting; 3) investigate options for accounting software specifically designed for fund accounting.

#### **Management's Response**

We acknowledge this comment and will take it under advisement.

A Material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the following deficiencies constitute material weaknesses.

#### **Risk Assessment**

The Township does not have a formal risk assessment process. On an ongoing basis, management must attempt to identify and assess potential risks that could prevent management from fully meeting its responsibilities. Such risks can arise from inside as well as outside the government. Management should strive to identify potential internal and external risks as soon as possible to have adequate opportunity for crafting an effective and efficient response.

We recommend the Township consider developing the required formal risk assessment process that includes 1) Establishing a favorable control environment; 2) Continuing assessment of risk; 3) Design, implement and maintain effective control-related policies and procedures; 4) Communication and 5) Monitoring.

#### **Management's Response**

We acknowledge this comment and will take it under advisement.

#### **Financial Statement Preparation**

Governmental entities are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). Responsibility for the financial statements of the Township rests with the Township management. The preparation of financial statements in accordance with GAAP requires internal control over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal accounting records), and (2) reporting government-wide and fund financial statements, including the related note disclosures (i.e., external financial reporting).

It is common for many small to medium-sized governments to rely on the independent auditors in the preparation of the government-wide and fund financial statements, as well as the related notes to the financial statement, as part of its external financial reporting process. As a result, a government's ability to prepare financial statements in accordance with GAAP has typically been based, in part, on its reliance on the independent auditors. By definition, independent auditors cannot be part of the government's internal controls.

The condition noted in the preceding paragraph exists at Gilmore Township. The cause for this condition is simply because it is more cost effective to outsource the preparation of its annual financial statements to the independent auditors than to incur the time and expense of having management obtain the necessary training and expertise required to perform this task internally.

As a result of this condition, management does not possess the qualifications necessary to prepare the Township's annual financial statements and notes to the financial statement in accordance with GAAP. The Township relies, in part, on the independent auditors for assistance with the preparation of annual financial statements and related notes to the financial statements in accordance with GAAP.

We recommend the Township consider the proper training for the appropriate individuals to assure that they are able to fully understand what goes into the preparation of the annual audited financial statements and so that they can take responsibility for the preparation of the annual audited financial statements, assure there are no material misstatements, and assure there are appropriate disclosures in accordance with accounting principles generally accepted in the United States of America.

#### **Management's Response**

We acknowledge this comment and will take it under advisement.

#### **Significant audit adjustments**

Due to the aforementioned lack of qualifications necessary to prepare the Township's annual financial statements, the underlying accounting records did not accurately reflect the Township's financial position. Therefore, during the audit significant adjustments to the Township's accounting records were proposed and necessary to create accurate financial statements. Not only were adjustments required to convert the records from cash basis to modified accrual and accrual basis, significant adjustments were needed to establish an accurate cash basis trial balance. All such misstatements, many of which were material to the financial statements taken as a whole, have been corrected and communicated to the Clerk and Treasurer in a meeting.

We recommend the Township consider one or more of the following options:  
1) invest in education necessary for individuals responsible for the accounting process to gain the needed expertise; 2) consider outsourcing its accounting function to an individual or entity with the proper knowledge and expertise in governmental fund accounting.

**Management's Response**

We acknowledge this comment and will take it under advisement.

**Monthly Reporting to the Board**

As part of its governance responsibility and internal control for the Township, the Board should be receiving monthly financial statements. Specifically, state regulations require periodic (monthly is suggested) reporting of:

- Detail Revenue by Fund--Budget and Actual
- Detail Expenditures by Fund--Budget and Actual

Given the inaccuracies in the accounting records and the lack of expertise, this is not taking place.

We recommend the Township consider one or more of the following options:  
1) invest in education necessary for individuals responsible for the accounting process to gain the needed expertise; 2) consider outsourcing its accounting function to an individual or entity with the proper knowledge and expertise in governmental fund accounting.

**Management's Response**

We acknowledge this comment and will take it under advisement.

This report is intended solely for the information and use of management, the Board of the Township of Gilmore, and Federal and State agencies and is not intended to be and should not be used by anyone other than these specified parties.

We would like to thank the Township personnel and Officials for the cooperation we received from them throughout the course of the audit. We welcome any questions you may have regarding the foregoing comments, and we would be happy to discuss any of these or other questions that you might have at your convenience.

*Page, Olson & Company*